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RESERVE BANK
NEW ZEALAND



WELLINGTON, N.Z.

AUGUST · 1953

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NOTE: Where figures are given to a certain degree of approximation the total shown may not be the same as the sum of the items.

The following symbols have been used throughout the "Bulletin":

... = not available.

— = nil or less than half the unit employed.

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The Strengthening of Sterling

IN THE NOVEMBER, 1952, issue of the "Bulletin", an article dealing with the economic conferences of the Commonwealth included reference to an improvement in the position of sterling during the latter part of the year. This progress has continued throughout the first half of 1953. At a meeting of Commonwealth Finance Ministers in January, 1952, it was emphasised that the Commonwealth was firmly resolved to adopt policies designed to strengthen sterling as an international currency, with the ultimate objective of the restoration of convertibility. The reiteration of these principles in the press statement issued after the economic talks of Commonwealth Prime Ministers in December last has contributed to the general feeling of confidence in sterling apparent in the world today.

It was not envisaged that convertibility would come into effect immediately; indeed the final communiqué of the December conference emphasised the attainment of this objective by progressive stages as and when conditions permitted. The need for caution and patience in the advance toward convertibility has been further emphasised as a result of recent discussions between the United Kingdom Government and the Governments of the United States of America and of O.E.E.C. members. Nevertheless, in the past few months there have been some developments in the United Kingdom which show that the sterling area has made material progress toward the ultimate goal of multilateral trade and convertible sterling. The main features of these recent developments are outlined below.

Rise in the Gold and Dollar Reserves

The decline in the level of the sterling area's central reserves of gold and dollars from the June, 1951, peak of \$3,867 million was arrested by June, 1952, when they stood at \$1,685 million. At the close of the year the reserves had moved upwards to \$1,846 million, and throughout the first half of 1953 a surplus was earned in each month. On 30th June the reserves were \$2,367 million.

Of this improvement of \$521 million in the first half of 1953, American aid to the United Kingdom contributed \$167 million and \$137 million arose from settlements in the European Payments Union (E.P.U.). The Coronation has no doubt made some contribution to dollar income in recent months through the inflow of dollar-spending tourists. The continued recovery is reassuring considering that seasonal influences in the middle of the year are normally unfavourable. The dollar income arising from sterling area commodities usually reaches its peak around the close of the calendar year. A special factor which operated against the rise in reserves in June was a payment of \$22 million to the U.S.A. for the British acquisition of a large shareholding in Associated Electrical Industries. A surplus in July brought the level of the central reserves to \$2,456 million.

Following the settlement of operations within E.P.U. for June, 1952, the position of the United Kingdom showed a cumulative deficit of about £400 million. Transactions in the 12 months ended June, 1953, have resulted in the reduction of this deficit to approximately £273 million, an improvement of £127

million. This cumulative deficit of the United Kingdom (including sterling area transactions with E.P.U. countries) has been accounted for by the payment of about £83 million in gold and the receipt of credit in the books of the Union to the order of about £189 million.

Exchange Rates

Significant indicators of the strength of sterling are the various foreign exchange quotations, particularly the sterling-U.S. dollar rate.

The spot rate between the U.S. dollar and the pound sterling is free to move between \$2.78 and \$2.82. Since September, 1952, the London foreign exchange market's closing rate at the end of each month has been above the parity level of \$2.80. The demand for dollars by members of the sterling area dollar pool, admittedly restrained by fairly stringent controls, was less than the supply of dollars coming forward. For the first time since the reopening of the foreign exchange market, quotations for the U.S. dollar in February this year reached the ceiling of \$2.82 and on 31st July the London closing rate was \$2.81 $\frac{1}{16}$. In terms of Canadian dollars sterling has hardened from \$2.72 in December, 1952, to \$2.78 $\frac{1}{16}$ on 31st July.

During the second half of last year, the margin between spot and forward quotations for U.S. dollar dealings narrowed considerably. Previously the forward market had been at a discount in response to rumours of a freeing of the exchange rate for sterling, but the rise in gold and dollar reserves in October, coupled with the fact that interest rates in London are higher than in New York, reversed this trend. Quotations at the end of July showed a forward premium on the U.S. dollar of less than 1 per cent while the Canadian dollar forward quotations were at a small discount on sterling.

A significant improvement is also noticeable in the free market quotations for sterling notes, "transferable" and "security" sterling. In both New York and Switzerland sterling notes have hardened in relation to the official U.S. dollar parity, while the market rates for both "transferable" and "security" sterling are much closer to the official rate. The narrowing of these margins reflects increased confidence in sterling as an international currency, and increased willingness to hold it. It takes the United Kingdom nearer to its objective of establishing a single homogeneous type of non-resident sterling. It also implies that fewer dollars are being lost by the United Kingdom as a result of commodity dealings financed through the "cheap sterling" markets. With smaller discounts on official parities, operations involving cheap sterling deals are less profitable, and may show no profit at all.

U.S. Purchases of Bills in London

With the increase in the U.K. Bank Rate from 2 $\frac{1}{2}$ per cent to 4 per cent in March, 1952, it became profitable for Americans to invest on the London money market. The return on 3 months commercial bills has moved to about 3 per cent in London compared with about 2 per cent for similar bills in New York, thus providing scope for Americans to send money to

London for short-term investment or refrain from repatriating from London their receipts in sterling. However, no American demand for London bills eventuated in 1952, primarily because forward sterling was quoted at a discount sufficiently large enough to detract from the profitability of such transactions. Early in 1953, with the narrowing of the margin between spot and forward quotations of U.S. dollars and increased confidence in the stability of sterling, Americans have been more active in the London market for commercial bills.

Foreign Exchange Arbitrage

A technical development of economic significance took place on 18th May. The United Kingdom and seven major European countries (Belgium, Denmark, France, Germany, Holland, Sweden and Switzerland) provided facilities for their exchange markets to undertake arbitrage operations with each other for foreign currency requirements. Previously, exchange dealings were negotiated on a bilateral basis, i.e., an English broker requiring French francs could satisfy his demand only on the London market or in Paris. Now he is permitted to acquire French francs in any of the participating markets. For the present, dealings are confined to spot or cash transactions, although it is likely that the scheme will later be extended to forward purchases and sales.

This arbitrage facility in no way implies the freeing of exchange rates or relaxation of exchange controls, but it does re-establish a genuine international foreign exchange market for permitted transactions. It also does on a day to day basis what was previously accomplished by the E.P.U. clearings once a month, although the ultimate settlements within the Union will be the same but calculated on a smaller turnover. A reasonably uniform cross-rate structure between these countries has been established, and a closer margin in dealing rates has become possible. A range of buying and selling limits, .75 per cent each side of parity, has been set, and for the first time the Deutsche Mark is now quoted in London. These developments involve a restoration of previous market facilities, a necessary prelude to a relaxation in exchange controls and eventual convertibility.

Commodity Markets

In recent months the United Kingdom authorities have freed a number of commodities from state trading, thus facilitating the reopening of commodity markets which existed in England before the second world war. An important feature of some of these markets is the fact that a non-resident of the sterling area may purchase for sterling in London certain commodities regardless of whether they are of dollar origin. This is in effect a limited form of sterling convertibility. The range of commodities with which genuine arbitrage is possible includes tin, lead, zinc, rubber, tea and cocoa. Copper was freed early in August while coffee, the import of which is controlled for domestic consumption if of dollar origin, may be re-exported for sterling to member countries of the E.P.U.

In another group of commodities, of which timber, pulp and paper are examples, the importation for domestic consumption is free, but re-exports are subject to control to ensure the receipt of the appropriate hard currency for re-exports of dollar goods. Although sugar is a special case, raw sugar of dollar origin or

cost may be resold only for dollars, and markets in grain are controlled in the same way. The value of this policy lies in the eradication of differential prices for commodities (which are symptomatic of the existence of convertible and inconvertible currency areas) and in the greater freedom available to merchants to buy in the cheapest market.

Sterling Balances

The process of reduction of the United Kingdom's sterling liabilities (sterling balances) to other countries, particularly those outside the sterling area, continued in 1952, thus tending to make sterling "scarce" for some countries and increasing its desirability as a form of international reserves.

UNITED KINGDOM STERLING LIABILITIES

£Stg. millions

	As at 31st December		Movement
	1951	1952	
Sterling Area	2,789	2,668	- 121
Non-Sterling Area	1,018	754	- 264
Non-territorial organisations	566	567	+ 1
Total	4,373	3,989	- 384

During 1952, quantitative restrictions on overall trade, including Commonwealth trade, were imposed by some members of the sterling area, primarily because of the low level of their reserves in London. Argentina and Brazil are badly in need of sterling. Japan has recently intimated that, unless steps were taken to remove restrictions against her exports to certain countries, she would be forced to take action to conserve sterling funds. The United Kingdom authorities have undertaken to repay to Italy sterling balances at a rate which would eliminate them completely in four years at the most, while blocked "security" sterling held by France may be made available for commercial transactions as security sales are made.

U.K. Exchange and Import Controls

In March, 1953, the United Kingdom raised from 44 per cent to 58 per cent the percentage of goods which private traders may import without licence from Western Europe. This liberalisation compares with the 75 per cent required by the O.E.E.C. and 90 per cent achieved by the United Kingdom before November, 1951. An increase in quotas of certain restricted imports was also announced by the United Kingdom authorities.

The foreign exchange allowance for tourist travel to certain countries outside the sterling area has been raised from £25 to £40 for adults and £15 to £30 for children. Motor-car allowances were increased by £5 to £20.

The exchange control authorities in the United Kingdom are also adopting a more liberal attitude to investment in the dollar area. A capital export to the U.S.A. was mentioned earlier in this article, while it is estimated that some £17½ million has already been approved for investment in Canada. In July a group of London and New York bankers with Canadian business participation formed a \$10 million corporation designed to provide finance and technical experience for the development of natural resources and industry in Canada.

Prospects

It would appear from the developments outlined above that the immediate prospect for sterling is one of continuing strength and progressive restoration of confidence. The terms of trade are still moving in favour of the United Kingdom and some Commonwealth countries, for the weakness on the produce and raw material markets has fortunately confined itself mainly to those commodities with a high dollar content such as wheat, timber, paper and pulp and aluminium. Although Britain is meeting more intense competition from the United States, Germany and Japan, her basic exports are being satisfactorily maintained, and the backlog of orders which tended to retard delivery dates has in some industries been worked off.

Despite these favourable indications of the strength of sterling, the Sterling Area countries face many

problems. With the steadily increasing tempo of competition in world markets, it is essential that production costs be held to a minimum. The signing of the Korean armistice takes the world a step further toward a possible reduction in world armament expenditure. It may be that the trend in terms of trade will then become adverse to the sterling area as a whole, while a recession in the United States would have world-wide repercussions. Further progress toward the convertibility of sterling under these conditions would be more difficult. Whether or not these unfavourable developments will occur, it is essential that Commonwealth countries continue firm anti-inflationary policies to protect the balance of payments of the sterling area and ensure continued confidence in sterling. The need for devoting considerable resources to the economic development of the sterling area continues to be urgent.

Full Employment of Economic Resources

VI—ALTERNATIVE USES OF SCARCE RESOURCES

(IN THE PREVIOUS ARTICLES OF THIS SERIES, NEW ZEALAND'S BASIC RESOURCES—LAND, LABOUR, CAPITAL—HAVE BEEN SURVEYED AND THE CONCEPT OF FULL EMPLOYMENT OF THOSE RESOURCES EXAMINED. THE PURPOSE OF THIS ARTICLE IS TO EXAMINE THE QUESTION OF PUTTING OUR RESOURCES TO THE BEST USES.)

MAN'S WANTS ARE INSATIABLE. We make steady progress in finding means of satisfying them, but as fast as we do that new wants appear. Yet the resources available for the purpose are limited; we cannot have everything we would like to have. We can decide very broadly how much of our resources should be used in producing our immediate requirements of consumption goods, and how much should be put into improving our capital equipment so that more goods may be produced in the future. The same resources cannot be used for both. In other words we have the choice of consuming more now or consuming more in the future, and resources must be allocated accordingly.

There is also a problem of how to allocate the available resources for the use of different people—a problem which is made more difficult by the fact that resources (of almost all kinds) have alternative uses. A piece of timber might be turned into firewood, or into a box, or into paper, or into rayon. A suburban plot of land could be occupied by a market garden, a cow, a house, a block of flats, a playing area, or a factory. A clerk could register motor vehicles, or make out farmers' tax returns, or keep stock records in a warehouse. Consumers' goods can be used only once—we cannot eat our cake and have it too. Capital goods (including land) can be used many times over, but only for one purpose at a time.

The Problem of Allocation

The question arises as to how a community can make the best use of the limited resources available toward meeting the people's varied and varying wants. Some wants are obviously more urgent than others, but there is plenty of scope for differences of opinion (e.g. Is a memorial fountain more urgent

than a school gymnasium or a hotel?). A solution may be to list all our requirements in order of priority, and then allocate resources accordingly. This would need perfect and complete planning and is obviously out of the question, especially in a community which believes in a large measure of individual freedom.

There is a limit to the extent to which democratic Governments are willing and able to allocate resources by direct control. Opinions differ as to where that limit lies, but most governments have found it necessary (even if they do not think it preferable in principle) to leave the allocation of resources to be determined mainly by market forces. Thus they do not decide the number of boots and shoes to be produced. They leave it for private enterprise to satisfy in its own way the demands of consumers.

Wasteful Use of Resources

But there is one responsibility which a government must accept—that the over-all demand for goods and services should not exceed or fall short of the supply which is possible from the resources available. If this is not done, that is if inflation or deflation develops, resources are no longer allocated in the best way, and may be wasted. In the case of deflation, with its accompanying unemployment problem, the waste of resources is obvious, as well as the human suffering. But when the economy errs on the other side, toward inflation, the apparent advantages (if the inflation is not too severe) tend to obscure the harmful effect on the use of resources. The increase in profits, and the incidence of price and import controls are uneven, and a large number of persons are occupied merely in administering, conforming to, or evading controls. This produces a wasteful use of

resources, with many essential goods in short supply and a mushrooming of new, small and inefficient industries which can thrive only in the hot-house atmosphere of inflation and sellers' markets. The scarcity of resources is never so great, nor their misuse so widespread, as in a period of inflation.

The Need for Flexibility

In any attempt to achieve the best possible use of economic resources, it is not enough to consider only the total resources and their use in different occupations. There must also be flexibility and mobility, especially of labour. Economic conditions change, and the economy must be adaptable, enabling the transfer of resources to those industries and firms which are and desire to be expanding, because they are more efficient than others, or because they are producing new commodities or using new methods. There is too much tendency for the policy of full employment to mean, in practice, resistance to the transfer of resources in accordance with the needs of the market and the march of technological progress. Such resistance, though based on the somewhat painful but temporary consequences which the transfer may involve for some people, is a resistance to necessary change, and is the way to stagnation. The worst enemy of flexibility is inflation, with its resulting controls and weakening of incentives.

Excessive Demand

Within the more limited field of investment, or capital formation, there is also competition for resources, and the possibility that they will not be used to the best advantage. Private investment competes with government investment for the available resources, while all forms of investment compete with consumption. There have been times when the problem was to stimulate both consumption and investment, because manpower and machinery were idle and wealth was being wasted. That problem disappeared in New Zealand before the last world war and has not since recurred. Our problem has been quite the opposite—an excess of demand relative to the available resources, resulting in price increases, controls over prices, rents, use of materials, and foreign exchange transactions. More recently, there has been an easing of demand, an improvement in supply, and removal of some of the controls, but others remain. The fact has been that what people wanted to consume, plus what they wanted to spend on capital formation or investment, plus what the government wanted to spend, added up to more than the goods and services available. This situation still exists to some extent, especially in respect of capital expenditure. All demands cannot be satisfied, because resources are limited. The result is a tendency for prices to rise and for balance of payments deficits to occur.

Is it consumption which is excessive, or capital formation? Is it government or private expenditure which is too large? Is the remedy to increase total production, or reduce consumption, or reduce capital formation? Or should there be external borrowing? What factors should be considered in deciding answers to these questions, and what methods should be used to achieve desired results? These are basic policy problems. The statistics of National Income and Expenditure are useful here, because they show the components of income, the extent of taxation,

savings, and the various classes of capital formation. An analysis of the figures provides a picture of how the economy is behaving and a guide to decisions in respect of savings, investment, taxation, wages and so on.

Methods of Restoring Balance

The problem is to restrain the demands for investment and consumption to the level which can be satisfied with the full employment (in the widest sense) of the resources available. There are five main methods which can be considered:—

- (a) The first possible method is to increase the National Income per head, not in money terms, but in real terms. This is always required, since it is the only way to improve living standards. It involves providing more goods and services to meet the demand; but in the process demand is itself increased; for increased production means a demand for more labour and materials, and higher incomes are generated. Therefore unless people will work more for the same income, there is no relief to the pressure of demand on scarce resources. In any case, with economic resources already fully employed, expansion of production per head rarely averages more than about 2 per cent per year.
- (b) The second method is to restrain capital formation. This is likely to be both difficult and unpopular. New Zealand is spending on capital formation about 20 per cent of gross national product. This is a high percentage to be financed out of the resources of a young country, yet it can hardly be said that there is (in absolute terms) too much capital expenditure in New Zealand. Judging by the desire of the general public, local bodies, and the government to finance arrears of capital works and essential development programmes (housing, schools, hospitals, land clearance, hydro-electricity, roads, harbours, factories, railways and so on), the demand will not be satisfied for a long time even at the present rate of expenditure. No one wants to hold back the development programme, yet few are willing to realise the inescapable fact that the available resources are limited. We can have more of the essential capital works only by diverting resources from other uses, and that means going without the less essential investments, or consuming less (i.e., saving more) or both. Selective credit controls, capital issues controls and building controls can be used; governments and local bodies can prune their capital works programmes. These methods are unpopular, because they involve direct controls and postpone desirable social and economic developments. Is there any alternative?

The answer is to be found in the other methods of balancing investment with available resources, namely—

- (c) Restraints on consumption, preferably increased voluntary restraint in the form of savings;
- (d) Higher interest rates;
- (e) External borrowing.

These topics are being dealt with in later articles in this series.

VII—CONSUMPTION AND SAVINGS

[IN THE PRECEDING ARTICLE WE LISTED FIVE WAYS IN WHICH THE RESOURCES AVAILABLE FOR CAPITAL FORMATION (INVESTMENT) COULD BE INCREASED TO MEET THE STRONG DEMAND WHICH EXISTS IN NEW ZEALAND AT THE PRESENT TIME. HERE WE ARE CONCERNED WITH THE THIRD OF THESE—RESTRAINTS ON CONSUMPTION, I.E., ON EXPENDITURE ON CONSUMER GOODS AS DISTINCT FROM CAPITAL GOODS.]

Standards of Consumption

Any measure which limits (or appears to limit) the amount of money which people spend is unlikely to be popular. It is natural (and correct) that people should think that the purpose of productive effort is to provide them with things to buy and money to buy them with. It is natural too that the numerous improvements going on all the time in techniques of production should give rise to an expectation of continuously rising living standards. Goods and services which twenty years ago were unknown, or rare, or regarded as luxuries, are now among the conventional necessities. For example, the New Zealand Consumers' Price Index, which is a major guide to the wages decisions of the Arbitration Court, contains such items as bananas, ice cream, washing machines, radios, lipstick, permanent waves, and aspirins, in addition to the usual basic items. In some degree the complaints about the high cost of living are really due to the cost of higher consumption standards. This is not to deny, of course, that the cost of living in the usual sense has risen; but it is a fact that people expect to live better these days and resent any suggestion that their rate of spending should be lower. Nevertheless, it is physically impossible to maintain the standard of consumption we would like, and at the same time to build the multitudinous capital assets which the community regard as desirable, unless total production is expanded to meet both demands. In the short run, in a fully employed economy, the rate of increase in total production is small, so that if we want a high level of capital formation we must restrain our production of and expenditure on consumer goods, or else borrow externally. There are several methods of restraining consumption, which will be discussed in turn.

Inflation

In recent years, one of the most widely-experienced influences restraining consumption has been inflation. With high incomes and readily available sources of credit the profit expectations of business were enhanced, and private investment was thus encouraged. Governments too were under pressure to provide more basic utilities, and investments were expanded further. The large investment programmes helped to bid up prices of labour and materials, and attracted resources from consumption industries. Consumption was restrained because of the shortages of goods which developed, and because the incomes of many people did not rise as fast as prices; and though they may have spent more money they bought fewer goods. In addition to its other disadvantages, inflation as a means of restraining consumption is dangerous and unfair to the majority of the population.

Rationing

During periods of emergency such as war, rationing confers a great degree of equality in sacrifice at a time when there is a general shortage of goods. Lacking many alternative avenues of expenditure, the community increases its savings and thus helps to finance war expenditure. Under more normal condi-

tions of supply, rationing has two major weaknesses. Firstly, because it leaves a greater proportion of incomes to be spent upon unrationed commodities, there may be no reduction in the total of consumption expenditure. Secondly, as demand for unrationed goods increases, investment prospects in such industries grow more favourable. The result may be a diversion of labour and materials away from the essential industries, which restricts the means of overcoming the shortage. Thus rationing, though it may restrain consumption on the particular commodities affected, cannot be used as a general restraint on consumption in normal times.

Indirect Taxation

The effect of an indirect tax is either to raise the price of the goods upon which it is imposed, thereby reducing the effective demand, or to make production of those goods less profitable, or both. The result is to reduce the resources used in their production and to release them for other uses, including perhaps capital formation.

Whether the result is a reduction in *total* consumption expenditure is not certain, though it may well be true of the individual commodities affected. Much depends on the elasticity of supply of and demand for the goods, the general level of taxation and savings, and whether the goods are imported or locally produced. The effect of commodity taxes in restraining the general level of consumption therefore cannot be predicted with any confidence. (This is quite apart from the use of such taxes as a means of obtaining government revenue or of restraining consumption of particular commodities.)

Subsidies

These are, in effect, negative taxes on commodities. Their justification lies partly in the fact that when goods are in short supply, they help in the application of an overall stabilisation policy, in conjunction with rationing and direct physical and monetary controls. There is also a social justification in that they help people on low incomes to obtain essential goods at lower prices.

When shortages are overcome and normal trade is resumed, however, subsidies provide a stimulus to consumption. Prices are reduced below real cost, and this expands the demand for such goods (if rationing permits). At the same time the consumer is left with more money to spend upon other goods. Inflationary pressures are intensified by this restraint upon prices. If this sounds like a paradox, it is because people tend to regard a rise in prices as identical with inflation, instead of what it really is, a result of inflation. It is also, in a sense, a cure for inflation, for the rise in prices eliminates some of the demand, stimulates supply and thus tends to restore equilibrium.

Since subsidies are a stimulant to consumption, the reduction or removal of subsidies would restrain consumption. Simultaneous monetary and fiscal policies of a disinflationary nature would help to mitigate the increase in retail prices which would result;

means are also available to compensate people with low incomes for any hardship which might be involved.

Direct Taxation

It is sometimes held that if voluntary savings are insufficient to finance a community's investment programme, the deficiency should be made up by the state by means of additional taxation, thus bringing about a budget surplus (i.e., compulsory savings). The savings thus forced from the community would be used either to finance government capital expenditure or repay some of the government's indebtedness to the banking system. (A similar, and perhaps better, result would be achieved if the budget surplus were due to a reduction in government expenditure without any tax increases.) This policy may prove satisfactory provided however that it is pursued steadfastly, and that tax rates are not so high already that any increase tends to reduce savings rather than consumption.

Voluntary Savings

There is no doubt that voluntary savings are by far the best way of assuring that a community's investment programme can be financed without inflation. Not only is it more effective and more likely to bring economic stability, but also it has the advantage of being achieved without compulsion or direct controls of any kind. Failure to achieve the appropriate level of savings has two main dangers—that important development works will be postponed, or that there will be a temptation to finance part of capital expenditure (public or private) with bank credit. The former is not desirable at any time; the latter may bring recovery if an unemployment problem exists but brings inflation if resources are already fully employed.

It is a matter of great importance that a country's investment programme be financed out of voluntary savings, made available to borrowers through an efficient capital market. Before we proceed in later articles to discuss savings and the capital market in New Zealand, it is worth while to note some extracts from the latest (1953) Annual Report of the Bank for International Settlements:—

"Capital markets cannot work effectively unless they are fed by adequate resources derived from genuine savings; the increased understanding of the essential functions performed by such markets has brought with it a greater recognition of the import-

ance of savings as a prerequisite of industrial re-equipment." (p. 73.)

"There seems to be no doubt anywhere that investments are necessary, but it has taken time for it to be realised that investment may have to be limited because of a shortage of savings; it has only gradually become recognised once again that those who contribute to the flow of savings by restricting their outlay for immediate consumption, thus making resources available for an increase in productive assets, perform a most useful social function." (p. 74.)

"There is today not a single country in which the subject of saving and investment does not give rise to at least a certain amount of concern; and there is every reason why the authorities should give this whole complex of problems the closest attention. Investment activity wisely handled and firmly based on genuine savings is the very essence of economic progress; but badly managed and financed in the wrong way, it becomes a source of weakness instead of strength." (p. 75.)

How then, can savings be made adequate to the task they have to perform? There are four main prerequisites:—

- (a) There must be an assurance of monetary stability. The general public must have confidence in the way the finances of the country are being managed and in the maintenance of the purchasing power of the currency. Nothing weakens the saving habit more than the fact and the fear of rapidly rising price levels. It makes consumption expenditure more attractive now than later; it makes savings a wasting asset.
- (b) The level of taxation, if very high, makes saving difficult in the first place, and then makes the net return (after tax) of investment less attractive. The scope for reducing taxes is limited by the scope for reducing government expenditure, since deficit financing is fully inflationary in its effect.
- (c) The rate of interest (or rather the pattern of rates) should not be held at an "unnaturally" low level. (The question of interest rates will be discussed in a later article.)
- (d) People must be convinced not only of the personal virtue of saving, but also of the national necessity.

Shorter Notes

National Income, 1952-53

Provisional figures for the year ended 31st March, 1953, issued by the Government Statistician show that the National Income of New Zealand rose by 4.9 per cent, from £617 million in 1951-52 to £647 million in 1952-53; and the gross national product rose by 3.9 per cent, from £713 million to £741 million. (The figures for 1951-52 have been adjusted slightly from the provisional ones issued last year.) Details are set out in tables on pages 124 and 125.

Capital Issues Control

The table below shows details of capital issues approved under the Finance Emergency Regulations, 1940, (No. 2), for the first and second quarters of 1953 with figures for the calendar years 1951 and 1952 included for comparison.

TOTAL APPROVALS

	Share Issues		Mortgages and Debentures	Total	
	New Cos.	Existing Companies		(No.)	(£'000)
1951	7,437	10,709	9,980	505	28,126
1952	5,473	10,663	8,598	647	24,734
1953—					
1st qr.	777	1,882	2,248	93	4,907
2nd qr.	2,015	952	1,971	119	4,938

Although total approvals for both the first and second quarters of 1953 were almost identical, approvals involving new finance were only £1.4 million in the second quarter compared with £2.5 million in the first quarter.

(\$N.Z. thousands)

Liabilities and Assets

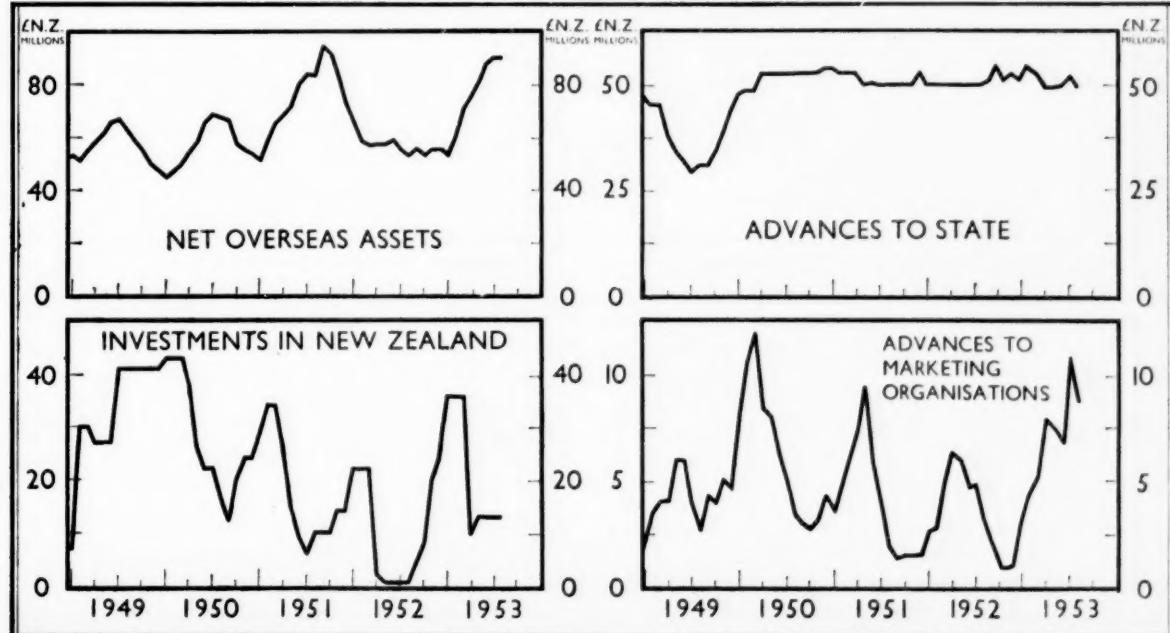
Average of Weekly Figures:	LIABILITIES				ASSETS								
	Bank Notes	Demand Liabilities			Reserve			Investments		Advances to State		Other Advances and Discounts	Other Assets*
		State	Banks	Other	Gold	Sterling Exchange	Other* Exchange	Overseas	In N.Z.	Market'g Orgns.	Other		
1946	45,169	17,302	59,731	524	2,802	81,332	—	4,124	1,867	961	35,127	—	1,396
47	47,682	13,265	57,102	483	2,802	85,300	—	3,826	749	1,157	28,510	5	1,046
1948*	48,930	13,228	57,706	380	2,802	65,090	—	5,704	4,792	1,698	35,182	2,437	7,549
1949	51,312	11,384	73,837	355	3,223	48,995	—	7,121	34,734	3,482	37,628	4,907	1,973
1950	55,126	15,446	74,239	1,232†	4,269	51,319	256	4,463	26,850	5,096	52,245	5,378	2,277
1951	60,361	18,844	69,326	4,929†	5,139	62,557	383	9,988	17,119	3,379	51,134	6,829	3,224
1952	62,252	14,962	48,557	490†	5,856	23,416	1,235	30,244	11,325	2,290	50,795	6,125	1,761
Last Wednesday in Month:													
1952—July	60,374	6,794	44,370	520	5,955	18,842	1,877	32,140	42	3,007	50,066	6,019	420
Aug.	59,568	7,436	50,299	830	5,996	20,884	2,272	32,140	4,042	1,744	50,973	6,019	612
Sept.	59,331	6,231	56,029	445	6,008	17,842	2,321	32,140	8,042	764	54,691	6,019	882
Oct.	60,484	10,159	63,187	322	6,009	31,992	1,376	22,090	20,042	745	51,512	6,019	1,058
Nov.	62,038	7,988	68,452	216	6,012	32,157	963	22,090	24,042	965	52,748	6,019	747
Dec.	69,247	7,681	71,992	176	6,013	30,467	652	22,090	36,042	3,007	51,214	6,019	603
1953—Jan.	63,626	8,200	88,846	726	6,015	38,466	773	22,090	36,042	4,311	54,066	6,019	809
Feb.	61,908	13,635	95,161	647	6,015	48,830	844	22,090	36,042	5,187	53,163	6,019	733
Mar.	62,469	17,071	69,167	488	6,015	53,283	600	22,090	10,042	8,067	50,007	6,019	825
Apr.	62,886	5,630	89,382	567	6,017	58,719	727	21,840	13,042	7,717	50,036	6,019	2,239
May	62,656	4,977	95,883	676	6,020	65,820	691	21,840	13,110	6,952	50,834	6,019	1,064
June	62,605	4,741	102,249	2,594	6,021	65,898	665	23,840	13,166	11,144	52,631	6,019	1,100
July	62,142	4,825	99,826	1,907	6,023	65,948	556	23,840	13,167	8,895	50,000	6,019	1,291
Aug. 5	62,252	7,291	96,001	1,788	6,024	64,872	636	23,840	13,163	7,826	51,139	6,019	837
12	62,162	6,832	98,651	1,785	6,024	67,161	651	23,840	13,158	7,402	51,382	6,019	902
19	62,817	7,773	97,611	2,110	6,024	65,920	482	23,840	13,149	6,597	54,649	6,019	836
26	62,647	4,462	99,869	705	6,024	65,840	581	23,840	13,149	5,984	52,736	6,019	902

* On and after 20th August, 1948, overseas assets and liabilities converted to N.Z. currency at rate, £Stg.100 = £N.Z.100; previously £Stg.100 = £N.Z.124.

† Prior to 1950 the figures for "Other Exchange" are included under "Other Assets".

‡ Included in these figures are the weekly averages of amounts in Wool Retention Accounts: 1950, £117,000; 1951, £4,204,000; 1952, £6,000. For details of the Wool Retention scheme see text page 19 of February, 1951, issue.

RESERVE BANK'S ASSETS



means are also available to compensate people with low incomes for any hardship which might be involved.

Direct Taxation

It is sometimes held that if voluntary savings are insufficient to finance a community's investment programme, the deficiency should be made up by the state by means of additional taxation, thus bringing about a budget surplus (i.e., compulsory savings). The savings thus forced from the community would be used either to finance government capital expenditure or repay some of the government's indebtedness to the banking system. (A similar, and perhaps better, result would be achieved if the budget surplus were due to a reduction in government expenditure without any tax increases.) This policy may prove satisfactory provided however that it is pursued steadfastly, and that tax rates are not so high already that any increase tends to reduce savings rather than consumption.

Voluntary Savings

There is no doubt that voluntary savings are by far the best way of assuring that a community's investment programme can be financed without inflation. Not only is it more effective and more likely to bring economic stability, but also it has the advantage of being achieved without compulsion or direct controls of any kind. Failure to achieve the appropriate level of savings has two main dangers—that important development works will be postponed, or that there will be a temptation to finance part of capital expenditure (public or private) with bank credit. The former is not desirable at any time; the latter may bring recovery if an unemployment problem exists but brings inflation if resources are already fully employed.

It is a matter of great importance that a country's investment programme be financed out of voluntary savings, made available to borrowers through an efficient capital market. Before we proceed in later articles to discuss savings and the capital market in New Zealand, it is worth while to note some extracts from the latest (1953) Annual Report of the Bank for International Settlements:—

"Capital markets cannot work effectively unless they are fed by adequate resources derived from genuine savings; the increased understanding of the essential functions performed by such markets has brought with it a greater recognition of the import-

ance of savings as a prerequisite of industrial re-equipment." (p. 73.)

"There seems to be no doubt anywhere that investments are necessary, but it has taken time for it to be realised that investment may have to be limited because of a shortage of savings; it has only gradually become recognised once again that those who contribute to the flow of savings by restricting their outlay for immediate consumption, thus making resources available for an increase in productive assets, perform a most useful social function." (p. 74.)

"There is today not a single country in which the subject of saving and investment does not give rise to at least a certain amount of concern; and there is every reason why the authorities should give this whole complex of problems the closest attention. Investment activity wisely handled and firmly based on genuine savings is the very essence of economic progress; but badly managed and financed in the wrong way, it becomes a source of weakness instead of strength." (p. 75.)

How then, can savings be made adequate to the task they have to perform? There are four main prerequisites:—

- There must be an assurance of monetary stability. The general public must have confidence in the way the finances of the country are being managed and in the maintenance of the purchasing power of the currency. Nothing weakens the saving habit more than the fact and the fear of rapidly rising price levels. It makes consumption expenditure more attractive now than later; it makes savings a wasting asset.
- The level of taxation, if very high, makes saving difficult in the first place, and then makes the net return (after tax) of investment less attractive. The scope for reducing taxes is limited by the scope for reducing government expenditure, since deficit financing is fully inflationary in its effect.
- The rate of interest (or rather the pattern of rates) should not be held at an "unnaturally" low level. (The question of interest rates will be discussed in a later article.)
- People must be convinced not only of the personal virtue of saving, but also of the national necessity.

Shorter Notes

National Income, 1952-53

Provisional figures for the year ended 31st March, 1953, issued by the Government Statistician show that the National Income of New Zealand rose by 4.9 per cent, from £617 million in 1951-52 to £647 million in 1952-53; and the gross national product rose by 3.9 per cent, from £713 million to £741 million. (The figures for 1951-52 have been adjusted slightly from the provisional ones issued last year.) Details are set out in tables on pages 124 and 125.

Capital Issues Control

The table below shows details of capital issues approved under the Finance Emergency Regulations, 1940, (No. 2), for the first and second quarters of 1953 with figures for the calendar years 1951 and 1952 included for comparison.

TOTAL APPROVALS

	Share Issues		Mortgages and Debentures	Total	
	New Coys.	Existing Companies		(No.)	(£'000)
1951	7,437	10,709	9,980	505	28,126
1952	5,473	10,663	8,598	647	24,734
1953—					
1st qr.	777	1,882	2,248	93	4,907
2nd qr.	2,015	952	1,971	119	4,938

Although total approvals for both the first and second quarters of 1953 were almost identical, approvals involving new finance were only £1.4 million in the second quarter compared with £2.5 million in the first quarter.

(£N.Z. thousands)

Liabilities and Assets

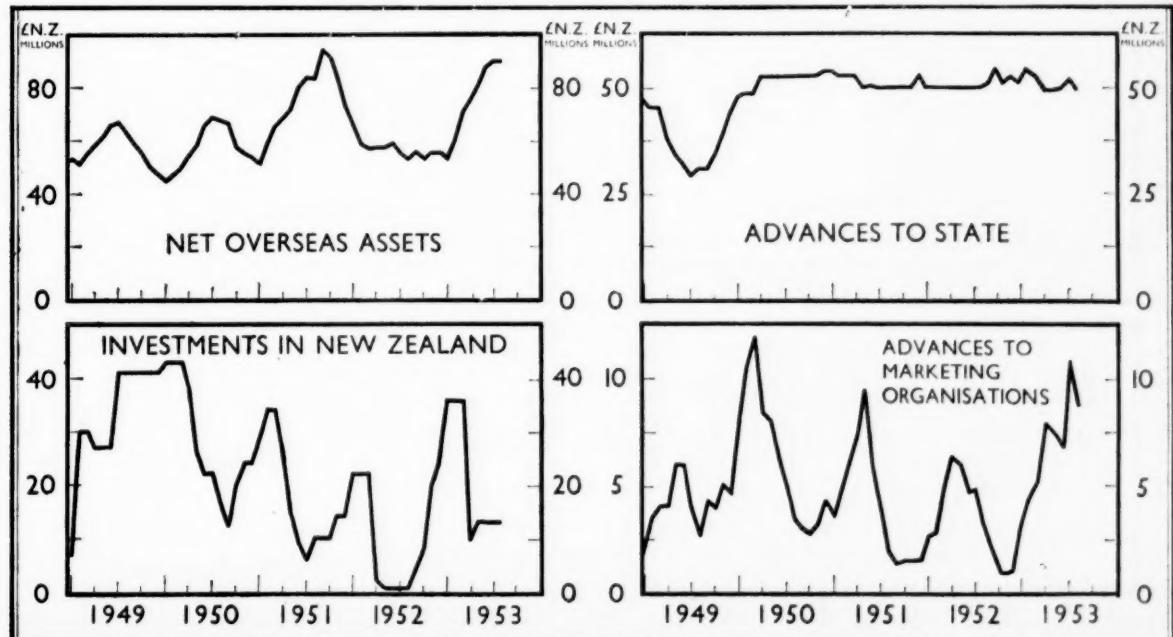
Average of Weekly Figures:	LIABILITIES						ASSETS							
	Bank Notes	Demand Liabilities			Reserve			Investments		Advances to State		Other Advances and Discounts	Other Assets*	
		State	Banks	Other	Gold	Sterling Exchange	Other* Exchange	Overseas	In N.Z.	Market'g Orgas.	Other			
1946	45,169	17,302	59,731	524	2,802	81,332	—	4,124	1,867	961	35,127	—	1,396	
1947	47,682	13,265	57,102	483	2,802	85,300	—	3,826	749	1,157	28,510	5	1,046	
1948*	48,930	13,228	57,706	380	2,802	65,090	—	5,704	4,792	1,698	35,182	2,437	7,549	
1949	51,312	11,384	73,837	355	3,223	48,995	—	7,121	34,734	3,482	37,628	4,907	1,973	
1950	55,126	15,446	74,239	1,232†	4,269	51,319	256	4,463	26,850	5,096	52,245	5,378	2,277	
1951	60,361	18,844	69,326	4,929†	5,139	62,557	383	9,988	17,119	3,379	51,134	6,829	3,224	
1952	62,252	14,962	48,557	490†	5,856	23,416	1,235	30,244	11,325	2,290	50,795	6,125	1,761	
Last Wednesday in Month:														
1952—July	60,374	6,794	44,370	520	5,955	18,842	1,877	32,140	42	3,007	50,066	6,019	420	
Aug.	59,568	7,436	50,299	830	5,996	20,884	2,272	32,140	4,042	1,744	50,973	6,019	612	
Sept.	59,331	6,231	56,029	445	6,008	17,842	2,321	32,140	8,042	764	54,691	6,019	882	
Oct.	60,484	10,159	63,187	322	6,009	31,992	1,376	22,090	20,042	745	51,512	6,019	1,058	
Nov.	62,038	7,988	68,452	216	6,012	32,157	963	22,090	24,042	965	52,748	6,019	747	
Dec.	69,247	7,681	71,992	176	6,013	30,467	652	22,090	36,042	3,007	51,214	6,019	603	
1953—Jan.	63,626	8,200	88,846	726	6,015	38,466	773	22,090	36,042	4,311	54,066	6,019	809	
Feb.	61,908	13,635	95,161	647	6,015	48,830	844	22,090	36,042	5,187	53,163	6,019	733	
Mar.	62,469	17,071	69,167	488	6,015	53,283	600	22,090	10,042	8,067	50,007	6,019	825	
Apr.	62,886	5,630	89,382	567	6,017	58,719	727	21,840	13,042	7,717	50,036	6,019	2,239	
May	62,656	4,977	95,883	676	6,020	65,820	691	21,840	13,110	6,952	50,834	6,019	1,064	
June	62,605	4,741	102,249	2,594	6,021	65,898	665	23,840	13,166	11,144	52,631	6,019	1,100	
July	62,142	4,825	99,826	1,907	6,023	65,948	556	23,840	13,167	8,895	50,000	6,019	1,291	
Aug. 5	62,252	7,291	96,001	1,788	6,024	64,872	636	23,840	13,163	7,826	51,139	6,019	837	
12	62,162	6,832	98,651	1,785	6,024	67,161	651	23,840	13,158	7,402	51,382	6,019	902	
19	62,817	7,773	97,611	2,110	6,024	65,920	482	23,840	13,149	6,597	54,649	6,019	836	
26	62,647	4,462	99,869	705	6,024	65,840	581	23,840	13,149	5,984	52,736	6,019	902	

* On and after 20th August, 1948, overseas assets and liabilities converted to N.Z. currency at rate, £Stg.100 = £N.Z.100; previously £Stg.100 = £N.Z.124.

* Prior to 1950 the figures for "Other Exchange" are included under "Other Assets".

† Included in these figures are the weekly averages of amounts in Wool Retention Accounts: 1950, £117,000; 1951, £4,204,000; 1952, £6,000. For details of the Wool Retention scheme see text page 19 of February, 1951, issue.

RESERVE BANK'S ASSETS



(\$N.Z. thousands)

II—TRADING BANKS

1. Liabilities and Assets

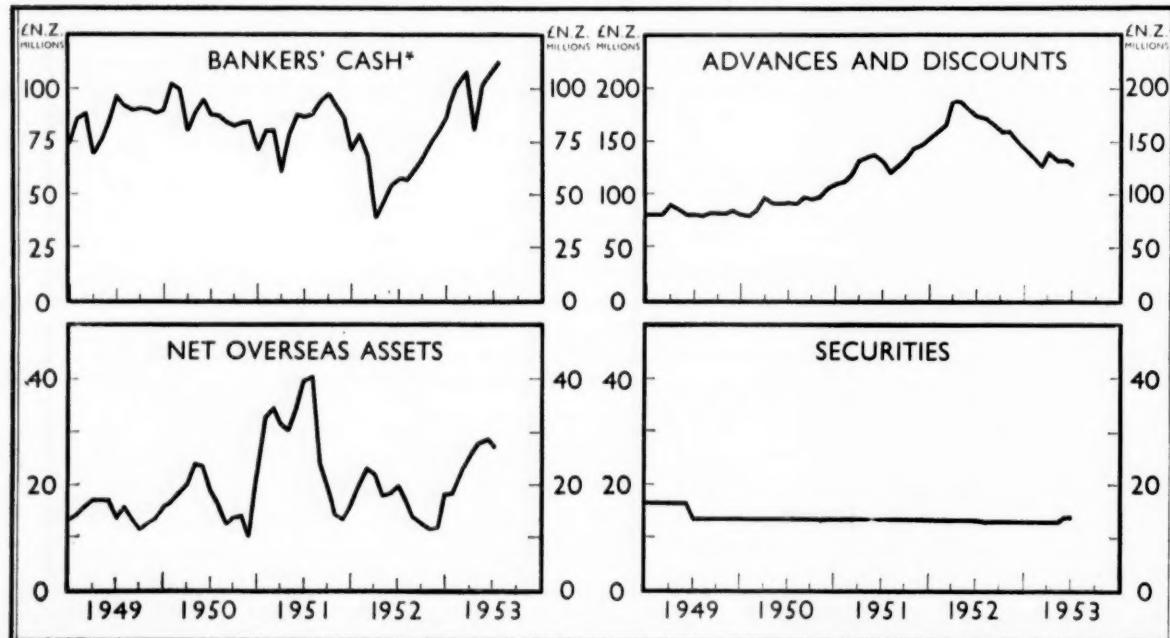
Average of Monthly Figures:	LIABILITIES (in New Zealand)				ASSETS					Unexercised Overdraft Authorities
	Demand	Time Wool Retention Accounts	Other	Total Demand and Time Liabilities	Bankers' Cash*	Net O'seas Assets	Securities		Advances and Discounts	
							Govt.	Other		
1946	117,071	—	34,414	151,485	67,794	12,541	26,168	2,293	58,342	45,041
1947	128,115	—	37,870	165,984	66,041	13,295	20,913	2,124	76,247	46,669
1948*	138,211	—	40,403	178,614	68,814	13,464	16,953	1,942	86,470	50,650
1949	150,699	—	39,016	189,715	86,120	14,526	12,856	1,813	81,981	57,686
1950	167,526	—	39,787	207,313	86,674	17,362	11,730	1,677	94,065	64,178
1951	196,663	19,589	39,815	256,068	83,278	27,276	11,716	1,527	133,079	72,230
1952	187,478	28,612	39,373	255,463	63,730	16,985	11,701	1,335	166,560	69,888
Last Wednesday in Month:										
1952—July	181,615	28,093	37,904	247,612	55,860	16,622	11,687	1,285	171,224	67,700
Aug.	177,440	27,757	38,629	243,825	60,678	13,408	11,687	1,272	164,173	70,648
Sept.	179,978	27,422	38,961	246,360	66,385	12,350	11,687	1,269	158,922	70,246
Oct.	180,876	26,995	38,417	246,289	73,651	11,390	11,687	1,266	159,368	71,702
Nov.	183,448	26,724	38,067	248,239	80,474	11,717	11,687	1,255	150,883	76,859
Dec.	186,314	26,460	37,309	250,083	86,297	18,137	11,687	1,251	141,916	80,609
1953—Jan.	195,167	25,607	37,058	257,833	101,110	18,333	11,687	1,190	135,289	87,325
Feb.	208,004	24,705	36,304	269,013	106,812	23,012	11,687	1,177	129,818	89,476
Mar.	200,271	24,061	35,951	260,284	81,376	25,742	11,687	1,175	140,449	84,582
Apr.	210,055	23,201	36,101	269,357	100,908	27,697	11,687	1,158	134,947	89,727
May	221,058	22,764	35,721	279,542	107,019	28,511	11,687	2,104	134,590	91,192
June	219,378	22,338	35,466	277,182	113,493	26,901	11,686	2,162	128,295	93,095
July	206,372	21,801	34,845	263,018	109,463	17,759	11,690	2,199	129,473	94,053

* Bankers' Cash includes Notes and Coin, and Balances at Reserve Bank.

† See text pages 19 and 67 of February and May, 1951, issues respectively.

* On and after 20th August, 1948, overseas assets and liabilities converted to N.Z. currency at rate, £Sgt.100 = £N.Z.100; previously £Sgt.100 = £N.Z.124

TRADING BANKS' ASSETS



II—TRADING BANKS
2. Classification of Advances

(\$N.Z. thousands)

Published by courtesy of the Associated Banks

Last Wednesday in month	1950	1951	1952			1953	
	June	June	June	September	December	March	June
1. FARMERS:							
(a) Mainly Dairy	7,594	9,575	9,395	9,656	8,986	8,013	9,020
(b) Mainly Wool	4,389	5,793	5,895	7,095	7,769	6,473	5,370
(c) Mainly Meat	1,672	910	899	1,041	1,134	1,007	720
(d) Mainly Agricultural	668	906	1,000	881	902	973	941
(e) Mixed	3,657	4,182	4,198	4,704	4,881	4,156	3,666
2. INDUSTRIES	17,382	21,367	21,388	23,377	23,674	20,621	19,716
ALLIED TO PRIMARY PRODUCTION:							
(a) Dairy Co's., Factories, etc.	588	1,313	858	5,119	2,618	642	853
(b) Freez. Works, Meat Co's., etc.	3,495	16,860	12,215	2,131	3,235	6,805	4,478
(c) Woollen Mills	1,016	893	2,868	2,483	2,149	2,843	1,579
(d) Wool Buyers	3,300	5,442	2,202	1,272	1,248	2,818	2,775
(e) Other	4,146	4,449	7,216	7,000	6,344	7,208	7,331
3. OTHER MANUFACTURING & PRODUCTIVE INDUSTRIES:	12,544	28,957	25,358	18,005	15,594	20,316	17,017
4. MERCHANTS, WHOLESALERS:	15,550	19,765	32,105	31,403	26,875	26,599	23,676
(a) Mainly Imp'trs	7,092	10,225	19,853	16,057	11,783	12,138	9,811
(b) Others	2,930	3,135	6,121	5,325	4,475	4,709	3,783
5. RETAILERS:	10,023	13,360	25,974	21,381	16,258	16,846	13,594
6. TRANSPORT:	8,944	11,932	18,752	17,137	13,594	13,961	11,199
(a) Shipping	444	503	237	313	356	446	446
(b) Other	1,838	2,607	3,188	3,053	2,891	3,254	2,900
7. ALL OTHERS:	2,282	3,110	3,425	3,366	3,248	3,700	3,346
(a) Local Bodies, M'pal Authorities, Public Utility Concerns, etc.	1,732	2,148	3,174	3,501	4,119	2,244	3,336
(b) Stock & Station Agents	594	954	2,660	6,203	6,492	3,071	810
(c) Hotels (Public & Private), R'nts, etc.	2,231	2,646	2,843	2,958	2,953	2,888	2,724
(d) Entertainment Concerns	227	198	202	233	280	260	279
(e) Financial Co's. Societies, etc.	2,170	2,121	2,855	2,814	2,642	1,874	2,478
(f) Religious and Charitable	363	460	559	533	631	677	713
(g) Professional	2,124	2,841	2,952	2,670	2,478	2,853	2,750
(h) Private Individuals	10,089	15,794	17,592	16,912	15,770	16,908	16,713
(i) Miscellaneous	3,745	5,034	6,645	5,678	5,539	5,583	5,531
TOTAL ADVANCES	90,001	130,686	166,486	156,171	140,146	138,401	125,881

III—NATIONAL INCOME OF NEW ZEALAND

1. National Income and Expenditure

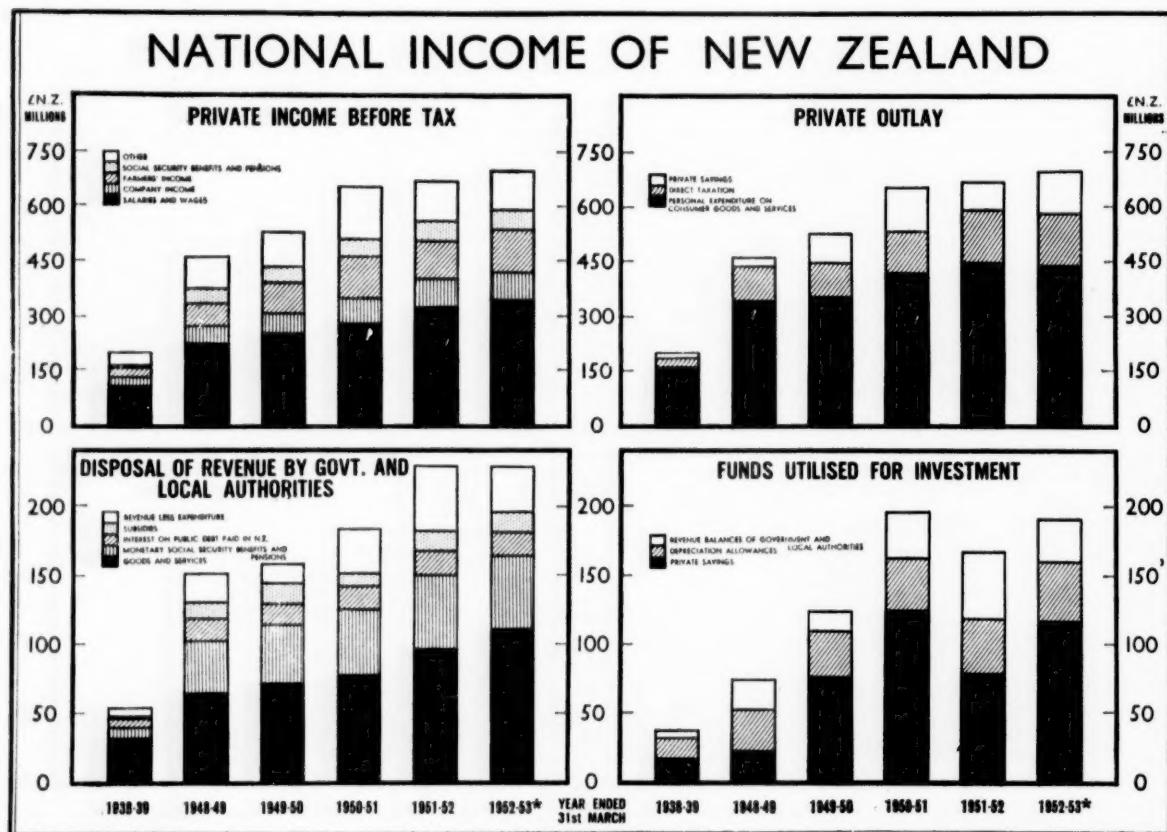
(\$N.Z. millions)

Source: Census and Statistics Department

INCOME	Year ended 31st March					EXPENDITURE	Year ended 31st March					
	1938-39	1949-50	1950-51	1951-52	1952-53*		1938-39	1949-50	1950-51	1951-52	1952-53*	
	†	†	†	†	*		†	†	†	†	†	
Salary and Wage Payments	111	251	279	325	346	Personal Expenditure on Consumer Goods and Services	159	355	418	450	439	
Pay and Allowances of Armed Forces	1	5	6	10	12	Cost of Government provided Goods and Services	32	71	78	97	111	
Rental Value, Owner-Occupied Houses	6	11	13	15	16	Gross Capital Formation in New Zealand	(a) Private	22	72	121	129	110
Other Personal Income	54	159	240	192	196	(b) Government	22	48	50	53	70	
Company Income	20	58	70	76	77	Net Overseas Investment	-6	4	25	-16	11	
Government and Local Authority Trading Income	9	13	16	18	17							
Less Public Debt Interest Paid in New Zealand	-7	-16	-17	-17	-17							
Net National Income at Factor Cost	194	481	607	617	646							
Plus Indirect Taxation	21	50	56	71	67							
Less Subsidies	-1	-15	-9	-15	-15							
Net National Income at Market Prices	214	516	654	673	698							
Plus Depreciation Allowances	15	34	38	40	43							
Gross National Product	229	550	692	713	741	Gross National Expenditure	229	550	692	713	741	

* Provisional.

† Revised.



2. Private Income and Outlay

(£N.Z. millions)

INCOME	Year ended 31st March					OUTLAY	Year ended 31st March				
	1938-39	1949-50	1950-51	1951-52	1952-53		1938-39	1949-50	1950-51	1951-52	1952-53
Salary and Wage Payments	111	251	279	325	346	Personal Expenditure on Consumer Goods and Services	159	355	418	450	439
Pay and Allowances of Armed Forces	1	5	6	10	12	Direct Taxation	24	96	113	142	145
Social Security Benefits and Pensions	8	43	48	54	54	Private Savings	17	76	125	79	117
Rental Value of Owner-Occupied Houses	6	11	13	15	16						
Other Personal Income:—											
(a) Professional Occupations	5	14	16	17	18						
(b) Commerce, Trade or Business	9	27	32	35	36						
(c) Farming	25	83	116	108	118						
(d) Changes in balances in Primary Produce Stabilisation Accounts	-2	+11	+17	+6	+3						
(e) Changes in balances of Wool Retention Moneys	—	—	+33	-3	-6						
(f) Interest, rent, etc.	15	16	18	20	20						
(g) Other	2	7	8	9	8						
Company Income (before distribution)	20	58	70	76	77	Private Outlay	200	527	656	671	701
Private Income (before tax)	200	527	656	671	701						

3. General Government and Local Authorities

(£N.Z. millions)

REVENUE	Year ended 31st March					EXPENDITURE	Year ended 31st March				
	1938-39	1949-50	1950-51	1951-52	1952-53		1938-39	1949-50	1950-51	1951-52	1952-53
Taxation (a) Direct	24	97	115	144	148	Current Expenditure on Goods and Services	32	71	78	97	111
(b) Indirect	21	50	56	71	67	Transfers to Private Income:—					
Trading Income	9	13	16	18	17	Social Security Benefits and Pensions	8	43	48	54	54
Less Direct Taxes paid by Government Trading Undertakings	—	-2	-2	-2	-2	Interest on Public Debt paid in New Zealand	7	16	17	17	17
Total Revenue	54	159	184	231	230	Subsidies	1	15	9	15	15
						Balance of Revenue over Expenditure	6	14	33	47	32
						Total Expenditure (+ or - Revenue balances)	54	159	184	231	230

4. Combined Capital Account

(£N.Z. millions)

SAVINGS	Year ended 31st March					INVESTMENT	Year ended 31st March				
	1938-39	1949-50	1950-51	1951-52	1952-53		1938-39	1949-50	1950-51	1951-52	1952-53
Private Savings	17	76	125	79	117	Gross Capital Formation in New Zealand:—					
Revenue Balances—						(a) Private	22	72	121	129	110
General Government and Local Authorities	6	14	33	47	32	(b) General Government	16	39	40	41	55
Depreciation Allowances	15	34	38	40	43	(c) Local Authorities	6	9	10	13	15
Total Funds utilised	38	124	196	167	191	Net change in Overseas Assets	-6	+4	+25	-16	+11
						Total Investment	38	124	196	167	191

* Provisional.

† Revised.

IV—EXCHANGE CONTROL—ANALYSIS OF TRANSACTIONS

(£N.Z. thousands)

1. Receipts—Year ended 30th June, 1953

	Total	United Kingdom	Australia	Other Sterling Area	Total Sterling Area	U.S.A. & American Account	Canada	Total Dollar Area	O.E.E.C. Countries	All other Countries
Current Items:										
1. EXPORTS										
(a) Butter	49,628	42,389	—	2,027	44,416	694	—	694	4,304	215
(b) Cheese	17,424	14,582	7	1,583	16,171	713	—	713	489	51
(c) Meat	48,341	46,685	20	1,009	47,714	258	23	281	344	—
(d) Wool	80,529	37,510	884	749	39,143	12,265	2,277	14,542	22,902	3,943
(e) Other	38,685	18,669	2,291	1,503	22,463	9,049	691	9,740	3,495	2,987
2. TRANSPORT										
(a) Freights (n.e.i.)	548	517	9	2	528	—	—	—	17	3
(b) Fares	89	82	—	3	86	3	—	3	—	—
(c) Port Disbursements by Shipping Companies	1,226	1,107	34	46	1,187	6	15	21	18	—
3. INSURANCE										
(a) Premiums	63	45	10	6	61	1	1	1	—	—
(b) Claims	206	177	5	5	187	13	3	15	1	2
(c) Other Transfers	393	223	62	76	361	—	—	—	31	—
4. TRAVEL										
Private and Business (excluding fares)	1,638	685	735	85	1,506	91	20	111	19	2
5. INTERNATIONAL INVESTMENT INCOME										
(a) Interest and Dividends	3,087	2,445	467	15	2,927	6	4	10	126	25
(b) Other Investment Income	2,379	1,040	864	438	2,341	— 33*	6	— 27*	48	17
6. GOVERNMENT TRANSACTIONS										
(a) Foreign Government Expenditure (n.e.i.)	339	157	—	1	159	38	2	40	106	35
(b) N.Z. Government Receipts (n.e.i.)	1,436	576	837	4	1,417	10	— 1*	9	11	— 1*
7. MISCELLANEOUS CURRENT TRANSACTIONS										
(a) Commissions & Royalties	551	331	72	36	440	70	25	95	15	2
(b) N.Z. Expenses of Overseas firms	546	298	116	50	464	52	7	59	23	—
(c) Personal Receipts	3,123	1,779	689	292	2,760	252	66	319	35	9
(d) Legacies	1,004	757	128	43	929	57	12	69	7	—
(e) Immigrants' Transfers	2,047	1,691	180	95	1,967	21	14	35	43	2
(f) Other Current Transactions	699	270	246	41	557	98	26	124	18	—
Total Current	253,980	172,014	7,658	8,109	187,781	23,663	3,190	26,853	32,056	7,290
Capital Items:										
1. PRIVATE CAPITAL RECEIPTS										
(a) Reducing Assets	2,015	862	498	121	1,481	194	303	497	25	10
(b) Increasing Liabilities	1,929	1,608	123	84	1,815	98	—	98	15	—
2. GOVERNMENT CAPITAL RECEIPTS										
(a) Reducing Assets	—	—	—	—	—	—	—	—	—	—
(b) Increasing Liabilities	—	—	—	—	—	—	—	—	—	—
Total Capital	3,944	2,469	622	206	3,297	293	303	596	41	10
COOK ISLANDS EXPORTS	188	101	7	2	110	72	—	72	6	—
UNIDENTIFIED ITEMS	12	7	2	1	10	3	6	10	—	— 8*
Total Receipts	258,124	174,593	8,288	8,318	191,199	24,031	3,500	27,531	32,102	7,291

* Minus signs result from reclassification of unidentified items from previous period.

IV-EXCHANGE CONTROL-ANALYSIS OF TRANSACTIONS

(\$N.Z. thousands)

2. Payments-Year ended 30th June, 1953

	Total	United Kingdom	Australia	Other Sterling Area	Total Sterling Area	U.S.A. & American Account	Canada	Total Dollar Area	O.E.E.C. Countries	All other Countries
Current Items:										
1. IMPORTS										
(a) N.Z. Licences	39,182	18,390	2,792	2,073	23,256	10,685	3,838	14,523	606	796
(b) Decontrolled Imports	111,912	87,278	13,780	3,814	104,872	1,404	138	1,543	5,011	486
(c) Government	28,099	18,801	6,815	100	25,717	1,582	637	2,219	135	28
(d) Other	3,789	3,445	68	46	3,558	38	1	38	185	8
2. TRANSPORT										
(a) Freights on Exports	834	492	57	42	591	69	51	120	14	108
(b) Fares	706	442	150	2	593	36	73	108	3	1
(c) Ship Charter	269	269	1	—	269	—	—	—	—	—
(d) Port Disbursements by Shipping Companies	63	46	6	4	56	1	—	1	6	—
3. INSURANCE										
(a) Premiums	100	72	8	13	93	4	1	5	2	—
(b) Claims	58	16	4	23	43	5	1	6	—	9
(c) Re-insurance	714	579	135	—	714	—	—	—	—	—
(d) Other Transfers	927	692	48	66	806	111	1	112	4	5
4. TRAVEL										
Private and Business (excluding fares)	4,698	3,227	1,032	221	4,480	135	31	166	41	11
5. INTERNATIONAL INVESTMENT INCOME										
(a) Interest and Dividends	2,057	1,051	499	43	1,592	337	108	445	19	1
(b) Other Investment Income	3,374	2,174	740	29	2,944	332	15	347	34	50
(c) Government Interest	2,482	2,481	—	—	2,482	—	—	—	—	—
(d) Local Body Interest	227	211	15	—	227	—	—	—	—	—
6. GOVERNMENT EXPENDITURE										
Government Expenditure Overseas (n.e.i.)	8,326	4,292	2,539	894	7,725	518	84	602	—	—
7. MISCELLANEOUS CURRENT TRANSACTIONS										
(a) Commissions & Royalties	1,180	373	103	74	550	302	31	333	268	29
(b) Rebates and Primes	355	172	5	1	178	102	12	114	50	13
(c) Overseas Expenses of N.Z. firms	2,370	1,314	506	11	1,832	252	194	446	90	3
(d) Personal Remittances	1,459	670	348	142	1,160	43	5	47	140	112
(e) Film Hire and Entertainments	791	138	139	1	278	510	1	511	2	—
(f) Religious and Charitable	557	191	130	153	474	6	—	7	37	40
(g) Legacies	1,174	702	334	56	1,092	43	21	64	4	14
(h) Emigrants' Transfers	1,129	503	421	95	1,019	45	49	94	5	11
(i) Transfers by Temporary Residents leaving N.Z.	878	549	190	52	791	45	27	72	13	2
(j) Other Current Transactions	491	240	148	19	407	58	5	63	20	2
Total Current	218,204	148,810	31,012	7,975	187,797	16,666	5,323	21,989	6,687	1,732
Capital Items:										
1. PRIVATE CAPITAL REMITTANCES										
(a) Increasing Assets	176	58	109	1	168	2	—	2	—	5
(b) Reducing Liabilities	3,815	3,079	534	133	3,746	32	8	39	24	5
2. GOVERNMENT CAPITAL REMITTANCES										
(a) Increasing Assets	897	897	—	—	897	—	—	—	—	—
(b) Reducing Liabilities	—	—	—	—	—	—	—	—	—	—
3. LOCAL BODY CAPITAL REMITTANCES										
Reducing Liabilities	228	227	2	—	228	—	—	—	—	—
Total Capital	5,116	4,260	644	135	5,040	34	8	42	24	10
COOK ISLAND IMPORTS	122	76	25	3	103	1	11	13	6	—
Total Payments	223,442	153,146	31,681	8,113	192,940	16,701	5,342	22,043	6,717	1,742

IV—EXCHANGE CONTROL—ANALYSIS OF TRANSACTIONS

(£N.Z. thousands)

3. Balances with Countries—year ended 30th June, 1953

	Exports	Other Receipts	Imports	Other Payments	Balances		Exports	Other Receipts	Imports	Other Payments	Balances
Australia	3,202	5,086	23,480	8,201	—23,393	Other American					
Belgian M.A.	2,500	21	363	65	+ 2,093	Account	778	3	4	11	+ 766
Canada	2,991	508	4,626	717	— 1,842	Other Sterling					
Denmark	547	18	247	16	+ 303	Area	4,860	326	1,288	902	+ 2,993
Fiji	86	353	2,277	636	— 2,474	Poland	1,841	—	—	—	+ 1,841
French M.A.	14,456	239	543	219	+ 13,934	South Africa	610	295	808	217	— 120
Germany	5,259	3	723	40	+ 4,499	Sweden	225	13	1,531	44	— 1,336
India	917	243	1,063	236	— 138	Switzerland	1,434	19	520	73	+ 859
Italy	4,488	50	287	78	+ 4,172	U.S.S.R.	—	12	—	—	12
Japan	4,654	35	787	225	+ 3,676	U.K.	159,834	14,759	127,990	25,156	+ 21,446
Malaya and Singapore	398	230	600	85	— 56	U.S.A.	22,199	1,051	13,707	2,979	+ 6,564
Netherlands M.A.	2,328	189	1,084	203	+ 1,230	All other coun- tries	977	53	624	217	+ 189
Norway	23	11	551	18	— 534	Total	234,607	23,517	183,104	40,338	+ 34,682

(£N.Z. thousands)

4. Receipts and Payments—Monthly, 1952-53

Receipts:	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	TOTAL
Exports:													
Butter	1,340	844	3,369	6,852	6,628	4,721	7,317	4,784	3,604	5,538	3,301	1,330	49,628
Cheese	1,704	417	492	1,659	1,652	2,120	1,631	2,293	1,813	1,569	1,434	639	17,424
Meat	5,005	6,325	3,491	2,670	977	1,709	4,723	6,895	4,873	4,181	4,349	3,143	48,341
Wool	2,240	3,355	1,684	2,371	2,655	8,669	8,086	11,851	12,569	10,900	10,302	5,849	80,529
Other	3,639	3,819	3,141	3,201	1,992	3,368	4,139	3,290	2,723	3,318	3,435	2,621	38,685
Other Receipts	2,438	1,905	2,245	1,693	1,986	1,976	2,064	1,549	2,499	1,689	1,889	1,585	23,517
Total	16,365	16,666	14,422	18,445	15,890	22,562	27,960	30,661	28,081	27,196	24,709	15,167	258,124
Payments:													
Imports:													
Govt.	2,675	2,219	2,468	2,554	2,028	2,359	2,206	2,182	3,754	1,874	1,744	2,035	28,099
Other	16,358	14,038	12,701	12,536	11,233	10,837	16,563	10,712	12,754	11,886	12,289	12,977	154,884
Govt.:													
Debt Inter- est	—	605	—	237	106	294	1	605	—	237	106	294	2,482
Other	190	380	529	278	337	922	531	420	4,369	577	533	410	9,476
All other	2,794	1,997	2,553	2,470	1,766	3,810	2,005	1,750	2,529	2,158	2,480	2,192	28,502
Total	22,016	19,239	18,249	18,075	15,470	18,222	21,305	15,669	23,405	16,733	17,151	17,908	223,442
Surplus or Deficit	— 5,652	— 2,573	— 3,828	+ 370	+ 421	+ 4,340	+ 6,654	+ 14,992	+ 4,676	+ 10,463	+ 7,558	— 2,741	+ 34,682

V—FOREIGN EXCHANGE

(£N.Z. thousands)

Net Overseas Assets*

Last Wednesday in Month:	1950	1951			1952			1953		
	Total	Reserve Bank	Trading Banks	Total	Reserve Bank	Trading Banks	Total	Reserve Bank	Trading Banks	Total
Jan.	63,360	58,413	32,482	90,895	58,490	19,868	78,359	61,492	18,333	79,825
Feb.	67,304	65,198	34,053	99,251	56,670	22,694	79,364	71,809	23,012	94,821
Mar.	74,175	68,254	31,504	99,758	56,662	22,101	78,764	76,192	25,742	101,934
Apr.	82,285	72,410	30,000	102,410	57,035	17,796	74,831	81,621	27,697	109,319
May	89,241	80,410	34,018	114,428	58,898	18,213	77,111	88,625	28,511	117,136
June	87,016	83,824	39,492	123,316	55,062	19,526	74,588	90,655	26,901	117,555
July	83,509	83,454	40,059	123,513	52,886	16,622	69,507	90,716	17,759	108,476
Aug.	78,402	94,150	23,712	117,862	55,391	13,408	68,799			
Sept.	71,009	91,914	18,802	110,716	52,456	12,350	64,806			
Oct.	68,843	83,855	14,108	97,963	55,512	11,390	66,902			
Nov.	63,541	72,947	13,401	86,347	55,281	11,717	66,998			
Dec.	72,984†	66,123†	15,680†	81,808†	53,426	18,137	71,563			

* Foreign exchange and overseas investments held by the New Zealand banking system in respect of New Zealand business, less overseas liabilities. The Reserve Bank figures include not only sterling exchange as formerly, but also other foreign exchange holdings and overseas investments.

† Last Wednesday before Christmas.